

**REPORT OF THE AUDIT OF THE  
MONROE COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2007**



**CRIT LUALLEN  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MONROE COUNTY SHERIFF**

**For The Year Ended  
December 31, 2007**

The Auditor of Public Accounts has completed the Monroe County Sheriff's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees increased by \$24,000 from the prior year, resulting in excess fees of \$12,000 as of December 31, 2007. Revenues increased by \$697 from the prior year and expenditures decreased by \$23,303.

#### **Report Comments:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Deposit Funds Intact On A Daily Basis

#### **Deposits:**

The Sheriff's deposits as of December 7, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$45,727

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wilbur Graves, Monroe County Judge/Executive  
The Honorable Jerry Gee, Monroe County Sheriff  
Members of the Monroe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Monroe County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 19, 2008 on our consideration of the Monroe County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Wilbur Graves, Monroe County Judge/Executive  
The Honorable Jerry Gee, Monroe County Sheriff  
Members of the Monroe County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Deposit Funds Intact On A Daily Basis

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Monroe County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

August 19, 2008



MONROE COUNTY  
JERRY GEE, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

Federal Grants		\$	34,999
State Grants			1,186
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			10,950
State Fees For Services:			
Finance and Administration Cabinet	\$	27,769	
Cabinet for Health and Family Services		1,135	
Sheriff Security Service		6,555	
Transporting Prisoners		<u>1,687</u>	37,146
Circuit Court Clerk:			
Fines and Fees Collected			4,560
Fiscal Court			36,650
County Clerk - Delinquent Taxes			345
Commission On Taxes Collected			107,405
Fees Collected For Services:			
Auto Inspections		7,935	
Accident and Police Reports		202	
Serving Papers		23,142	
Dog Tags		145	
Carrying Concealed Deadly Weapon Permits		<u>2,490</u>	33,914
Other:			
Sheriff's Add On Fees		17,608	
School Resource Officer		17,619	
Miscellaneous		<u>4,776</u>	40,003
Interest Earned			1,650

The accompanying notes are an integral part of this financial statement.

MONROE COUNTY  
 JERRY GEE, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2007  
 (Continued)

Revenues (Continued)

Borrowed Money:

State Advancement	\$ 55,000	
Bank Note	<u>13,000</u>	<u>\$ 68,000</u>

Total Revenues 376,808

Expenditures

Operating Expenditures:

Personnel Services-

Deputies' Salaries	87,138
Court Bailiff	24,872
COPS Grant	43,968
Highway Safety Grant	591
KLEFPF	9,349
Contract Labor	2,621

Employee Benefits-

Employer's Share Social Security	4,014
Employer's Share Retirement	4,215
Employer Paid Health Insurance	5,114

Contracted Services-

Vehicle Maintenance and Repairs	8,248
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Materials and Supplies-

Office Materials and Supplies	1,703
Uniforms	1,367

Auto Expense-

Gasoline	24,807
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Other Charges-

Dues	125
Postage	162
Bond	577
Dog Tags	33
House Bill 577 County Portion	1,750
Transporting Prisoner Expense	940
Miscellaneous	2,113

The accompanying notes are an integral part of this financial statement.

MONROE COUNTY  
JERRY GEE, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2007  
(Continued)

Expenditures (Continued)

Debt Service:

State Advancement	\$ 55,000
Notes	13,000
Interest	<u>1,983</u>

Total Expenditures \$ 293,690

Net Revenues 83,118

Less: Statutory Maximum 71,118

Balance Due Fiscal Court at Completion of Audit \$ 12,000

The accompanying notes are an integral part of this financial statement.

MONROE COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MONROE COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2007  
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Monroe County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Monroe County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 7, 2007, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured      \$45,727

MONROE COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2007  
(Continued)

Note 4. Drug Fund

The Monroe County Sheriff's office established a drug fund in February 1992 with funds received as the result of a drug investigation. These funds were to be used for drug enforcement and education. As of January 1, 2007, the drug fund had a balance of \$225. During 2007, receipts totaled \$2,699 and disbursements totaled \$2,505. As of December 31, 2007, the drug fund balance was \$419.

Note 5. Grant

The Monroe County Sheriff's office was awarded a grant under the Community Oriented Policing Services in Schools Grant Program from the U.S. Department of Justice. These funds were used to hire two additional full-time officers. As of January 1, 2007, the grant fund balance was \$8,839. During 2007, receipts totaled \$29,334 and disbursements totaled \$38,173. As of December 31, 2007, the grant fund balance was \$0.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







C R I T L U A L L E N  
A U D I T O R O F P U B L I C A C C O U N T S

The Honorable Wilbur Graves, Monroe County Judge/Executive  
The Honorable Jerry Gee, Monroe County Sheriff  
Members of the Monroe County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Monroe County Sheriff for the year ended December 31, 2007, and have issued our report thereon dated August 19, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Monroe County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Deposit Funds Intact On A Daily Basis



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Monroe County Sheriff's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Monroe County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

August 19, 2008

## COMMENTS AND RECOMMENDATIONS



MONROE COUNTY  
JERRY GEE, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2007

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of adequate segregation of duties over the receipts and disbursements functions. The bookkeeper posts all items to the receipts and disbursements ledgers, prepares and signs all checks, performs monthly bank reconciliations, and prepares the financial statements.

Segregation of duties over receipts and disbursements, reconciliation function, and reporting is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

The Sheriff should separate the duties of posting to receipts and disbursements ledgers, preparing and signing checks, performing monthly bank reconciliations, and preparing financial statements. If these duties cannot be segregated due to limited staff or limited budget, then strong oversight should be provided to the employee responsible for these duties.

*Sheriff's Response:* None.

The Sheriff Should Deposit Funds Intact On A Daily Basis

During our test of receipts, we noted the November 21, 2007 deposit included receipts dated November 16, 2007 through November 21, 2007. The State Local Finance Officer, under the authority of KRS 68.10, has established minimum accounting requirements, which include depositing receipts intact on a daily basis. We recommend the Sheriff comply with the State Local Finance Officer by depositing funds intact on a daily basis.

*Sheriff's Response:* None.

